

STATEMENT OF GLENN MARSHALL

REPRESENTATIVE, NEW ENGLAND REGIONAL COUNCIL OF CARPENTERS, IN SUPPORT OF RAISED BILL 1075, AAC CONSTRUCTION SERVICES AND THE REPORTING OF NONWAGE PAYMENTS, MARCH 12, 2013 BEFORE THE LABOR COMMITTEE

Senator Osten, Representative Tercyak, members of the Labor Committee. My name is Glenn Marshall, a representative with the New England Regional Council of Carpenters, and I am here today to testify in support Raised Bill 1075, AAC Construction Services and the Reporting of Nonwage Payments.

This bill attempts to close a loophole in the existing law. Currently, businesses are required to report payments, in excess of \$600, made to unincorporated businesses by issuing 1099's. Whereas, they are not required to do the same for incorporated businesses. The proposal is designed to close a loophole in the construction industry and make it harder for unscrupulous companies to gain an advantage over law abiding companies by misclassifying workers. This bill will allow the Department of Revenue Services and the Unemployment Compensation Fund to better track these payments and collect taxes and unemployment that are owed to the state.

Similar bills to close this loophole have been introduced in many states throughout the country, and the state of Washington recently passed a similar bill.

Over twenty years ago, Professor William Alpert from the University of Connecticut estimated that Connecticut lost over \$500 million dollars a year because of employee misclassification when you totaled up lost state income tax, workers' compensation payments, unemployment insurance, federal income tax and Social Security tax. Today, those numbers are probably much higher.

The state legislature has taken numerous steps in recent years to address this problem, including passing the stop-work order law in 2007, the creation of the Joint Enforcement Commission on Employee Misclassification in 2008 and the passage of increased penalties in 2010 for workers' compensation fraud.

As you probably know, the Unemployment Compensation Fund has been insolvent since 2009 due to the recession and is currently underfunded by \$630 million dollars. To help plug this gap, responsible contractors—both union and nonunion who play by the rules—are forced to pay assessments to pay off the principal and interest of this borrowed money from the federal government. These assessments are likely to last for another two to three years.

In addition, the workers' compensation system has structured assessments that are adjusted annually. The current rate is 2.75% for voluntary carriers for the 2nd Injury Fund and 4.8% assessment for operations.

By closing this loophole, the Connecticut legislature would be taking another important step in the effort to fight payroll fraud that hurts every construction business that plays by the rules. This will help collect the lost tax revenue to the general fund, and it will help reduce workers' compensation rates, cut the assessment costs to the 2nd Injury Fund and help businesses pay off the deficit in the Unemployment Insurance Trust Fund.

If this legislation is passed, the only losers are construction companies--many from out of state--that don't follow the rules to gain a competitive bidding advantage.

Thank you for your time and consideration. I will be happy to answer any questions.